ECONOMIC FLOWS OF COTTON IN REGIONAL COMMUNITIES

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Introduction
The cotton industry has, by most measures, been a success story for Australia. That contrasts with the development of cotton communities where success is less assured. This paper is focused on this dichotomy especially in respect of economic development. It would appear that cotton communities are not likely to experience a reduction in their dependence on cotton. Further, to capture a larger share of the flow-on effects from cotton will require a significant change in economic development strategy and the way it is implemented.

The paper is organised to provide some background on the cotton industry and its linkages to regional economies. Attention then turns to the tasks of building the economic capacity of cotton communities.

The Cotton Industry and its Linkages
The cotton industry is a leading industry among agriculture in terms of the depth to which its members apply best management practices in both a technical and business sense. There are many factors that underlie that performance including the capital intensity of the industry, the available technologies, the management personnel, the need for sophisticated risk management and the geographic concentration of the industry as it is irrigation based.

The cotton industry produces for a mature international commodity market where competition is intense and the need to minimise costs to market is critical for financial success. It is not surprising therefore, that the quest for efficiency has extended throughout the value chain to include transport from farm, ginning, warehousing, marketing and transport to market. Cotton farmers are also zealous in minimising the cost of materials and services used on-farm and in operating their business.

The efficiency motivation is not always good news for other businesses in the cotton communities. The linkages to other businesses are primarily driven by price and not all businesses have the capacity to compete with more distant suppliers. Not all cotton communities have the necessary scale of cotton industry or regional economy to be competitive. That competition is becoming more intense under globalisation, the rhetoric
about levelling the playing field and the growing significance of agglomeration in reinforcing the cost advantages of large urban centres over smaller ones throughout the hierarchy of urban centre sizes.

Although rising fuel costs may be disguising it, the modern economy has experienced massive reductions in the real cost of transport. This has been most significant in terms of transporting data (e.g. have your tax return prepared in India) and least in the transport of bulky goods. The implication is that many operations can now operate from fewer locations where each location services a larger area. Further, it provides greater choice to the operators about where they locate their operating centre – now it can be chosen from the basis of personal preference rather than the need to be near the customer. The fly in-fly out structure developed for the mining industry can be extended to agriculture, especially for those with high technical and professional skills.

There have been other factors that have an impact on employment in the industry. Regional areas have led the way in terms of developing flexibility in employment arrangements that best meet farm needs and accommodate the changing lifestyle of the population. And the transport cost reductions make possible a separation of the decisions about where one works and where one lives. In some areas, the mining industry is now a powerful competitor for labour. The new generations (X, Y etc.) seem to be quite different from the ‘baby boomers’ that are now beginning to exit the workforce. The new generations also have different expectations about the way the community they live in operates and the services that it provides.

The net result is that there are changes on both the supply and demand side that impact on the geographic location of the linkages that exist between the cotton industry and the various suppliers. The short answer is that the potential supply area is much larger and the local community has an advantage over a reducing set of those supplies. Local suppliers have to compete for their market share and local communities have to compete as the place of residence for those working in the cotton industry or providing services to it. Like all competitive situations, not all cotton communities will be winners.

The linkages from the cotton industry to other parts of the economy can be classified into three groups related to the extent to which those linkages are locally based.

**The essential local linkages.** These products and services are those that can be accessed regularly and at short notice, or would otherwise incur high transport costs and include:

- Regular on-hand labour
- Crop protection services
• Repairs and maintenance
• Ginning and warehousing
• Local transport
• Structural capital works

Those linkages not likely to be local. These include those materials and processes supplied by large manufacturing operations. In some cases, the local distributorships for these materials are also under threat. They include:

• Machinery
• Materials such as fuel and chemicals
• Specialist business services
• The downstream processing of cotton

The processing of cotton through to consumer goods is unlikely to be significant in Australia. However, that does not preclude the ownership and management of these processes through outsourcing and contracting to produce the cotton products offshore. Some niche markets could be exploited but the skills and capital required are considerable and somewhat removed from the skills of experience of cotton growers.

Those linkages that can be retained or attracted to the local area. This is the area of focus for the switched-on communities and can make a substantial contribution to the community as they often attract young people and those with professional and trade qualifications. These include:

• Warehousing, transport and logistics
• Marketing
• Specialist machinery
• Specialist labour and business support services
• Research and development
• Distribution activities

There are many linkages associated with providing the households with their needs of goods and services. Increasingly, many of the core services are provided by the national chains and franchises that respond readily to population growth and consumer spending. What cream on the cake for a local community comes from the discretionary areas seen by the households as important to their lifestyle and their future. Cotton communities need to monitor carefully where these dollars are flowing to such as housing and backyards, eating out, plasma screens, etc. Of considerable importance is the trends in schooling and many families have moved from some cotton communities to gain access to private schools.
There is considerable variation among cotton communities in the level of success they have had in building their economic development on the linkages offered by the cotton industry. At one end of the spectrum is Narrabri where a ‘cluster’ of cotton-related activities has developed that includes research and development, technology services of various kinds, marketing and so on. In essence, the cluster concept seeks to achieve agglomeration economies through having many related activities in one place thereby lowering costs and opening up the opportunities for creative interactions that produce new ideas and reduce professional isolation.

The other end of the spectrum can be a form of ‘dual economy’ where there is a high technology cotton industry that is supported by linkages that mostly bypass the local area. Thus, the community has a weak economic structure, little growth and little that is competitive in an economic sense. There is also evidence that many businesses in some of the larger towns are operating well below the competitiveness demonstrated by the cotton industry and that remains a threat to the on-going vitality of those towns.

Let us now turn to the issues in the cotton communities and what they may do.

**The Cotton Communities**

The following is a list of principles that can provide the focus for cotton communities thinking about their development.

1. The cotton industry and its people are a key asset for their community. This is an industry that needs to be protected from clumsy, poorly informed and incompetently implemented ‘initiatives’ in natural resource management policy (and in future who know what). That was a serious distraction from the main game of operating businesses with high and unrecoverable lost opportunities. Threats to the industry are synonymous to a threat to the community as the dependence on cotton (and agriculture) is not going to be reduced anytime soon. Few communities have articulated that their number one strategy is to protect and enhance their existing strengths in cotton.

2. Economic development is unlikely to occur by accident. Just as businesses need strategies and plans, so do communities in respect of their economies.

3. Recognise that few businesses will move to a smaller and remoter location without good reason. And you will have to provide that reason based on filling gaps in existing industry structures with demonstrated demand for their products or services.
4. Build diversity into the economy. This involves both product diversity and market diversity to lessen the exposure to the inevitable variations in agriculture. This is what I call the ‘Faber Toolbox’ model but applied at a community scale. This is the key long-term strategy and, obviously, will not happen tomorrow.

5. The diversity will most likely be driven by expansion of business activities that already exist and where the potential has not been recognised or taken up. Economic development programs that enhance local business development seem destined to secure more long-term support than those that are focused on bringing more competitors to town.

The development of cotton communities presents a number of challenges given that there are few success stories from past efforts. What follows is a modified approach based on observing, participating and analysing 30 years of effort. While all governments at all levels have made statements about development, it seems to me that few have faced up to many of the realities in economic development. I take this opportunity to share some thoughts with you about the economic development element of regional development.

Cotton Communities Economic Development

Begin with the premise that the region economy is equivalent to a business, albeit with many branches and products. From that perspective, it is possible to think about how to grow the business. That will require a strategy and a business plan to implement the strategy. The strategy will be based on an analysis of business performance and business prospects. There will be recognition that it is business growth that will grow the economy, and that is essentially a private sector role.

The strategy should have four core elements.

1. Support and enhance existing strengths

Rural regions have a high dependence on agricultural activities, in this case cotton. Some of the policy initiatives of the past decade appear to have been derived from an assumption that it is optional for rural regions to continue in agriculture. Yet many decades at attempted development of diversity have failed. The resistance of the regions to these initiatives is appropriate and reflects knowledge of the fundamentals of regional economic structure that others do not recognise.

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1 As I write Bluescope Steel announced some closures in Port Kembla, perhaps amounting to one per cent of the economy, and the Federal Government immediately put $5m on the table to assist adjustment. In 1996, the drought reduced the Gross Regional Product by around 50 per cent and received little more than a trickle of drought assistance! The level playing field at work!
Within cotton communities, the existing cotton industry strength has to be supported. It needs to be stated as a sore strategy. (My passion on this issues stems from working in a university that ignored this fundamental and all but disappeared.) The task lies in identifying what strengths exists and whether they have the potential to be commercial strengths into the future.

2. Build diversity in the economy
This task requires action at two levels. First, at the overall economic structure level where there is a need to identify economic activities with potential for development that will service both local and other markets.

Second, individual businesses should themselves be encouraged to develop their own ways to have a more robust business that is less dependent on the variable elements in the regional economy. For that they will need advice (see 4 below).

3. Nurture youth into business and support entrepreneurs
It is apparent that most regions have a distinctly ageing population, workforce and business operators. Yet I have found few communities where they have a strategy that is targeted at encouraging young people into management roles in local businesses. This is a challenge, given that many of the Gen Xs and GenYs reckon that they are ready early for responsibility while the preceding baby boomers reckon they should climb the stairs like they had to. It is possible that the cotton industry has been more active in that respect so that their urban cousins may get some pointers from that source.

Entrepreneurs are a scarce element and by their nature, they tend to like a lot of persona interaction. Many regional locations are inimical to that interaction and creative effort is needed to overcome that problem to stop the inevitable gravitation to the cities. (see www.pioneerentrepreneurs.net).

4. Support provision of business advice and engage the private sector
Keniry2 indicated that regional businesses were rarely investor ready and that they did not have access to the range and depth of business support services that were required to operate a modern business. To date, government has not responded to that issue and the deficiency remains.


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2 Keniry, J (chair) (2003), Regional Business – A Plan for Action, Report to the Department of Transport and Regional Services, Canberra.
There are some further issues relating to advice for businesses in regional areas. They include concerns about the confidentiality in regional locations that prevent the development of a trust so essential to bring together the personal and business elements in what are normally owner-operated businesses. Many of the advisers operating in the economic development-type agencies lack business experience and have difficulty in gaining the respect of clients in regional locations. In any case, the services are ‘thinly spread’ so that there is little capacity to undertake the task adequately. Then there is the cost of providing the service on a personal basis across the vast regional areas.

A suggested direction could have the following elements:

- Make use of private sector advisers who have business experience working with unincorporated businesses (but they may have to be non-local).
- Use the internet as a resource centre for many of the tasks.
- Support with modern communications systems that can be interactive as well as the telephone

More details of such a structure can be found at [www.economicgardeners.com.au](http://www.economicgardeners.com.au)

**Conclusion**

Cotton communities have a high dependence on agriculture and cotton in particular. Our experience indicates that the business performance of many of the non-farm industries is low relative to that of the cotton industry. Ironically, some of that low performance is attributable to the vigilance of cotton growers in ensuring that their performance is as good as possible and so they acquire products and services from non-local sources. This dichotomy results in lost opportunities for cotton communities. The solution for cotton communities is to develop a better focus on the business development of their communities.